



THE SENIORS COALITION

Working for a Responsible America

March 10, 2008

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 – 12th Street SW
Washington, DC 20544

RE: CC Docket No. 96-45 and WC Docket No. 05-337

Ms. Dortch:

The Seniors Coalition¹ (TSC) is a leading proponent of reining in waste and abuse under the \$7 billion Universal Service Fund (USF) tax on American seniors and other consumers. While we continue to support a cap imposed by the Federal Communications Commission (FCC) on competitive Eligible Telecommunications Carriers (ETC) High Cost Support under the Universal Service Fund, TSC supports the two pending proposals intended to fundamentally reform the manner in which high cost support is distributed. Specifically, The Seniors Coalition is in favor of the use of reverse auctions and limits on "identical support" to reduce the amount of money wasted on USF.

While virtually all Americans will support the concept of universal telecommunications access, we believe that very few would support the current unrestrained system of tax subsidies for duplicative means of access. This appears to be the situation we are in today. As the latest FCC Wireless Competition Report notes: "Approximately 99.3 percent of the total US population living in rural counties, or 60.6 million people, have one or more different operators offering mobile telephone service in the census blocks within the rural counties in which they live."² This means that better than 99 percent of people in rural American have wireless phone service available to them from one or more carriers. Why then do taxpayers need to subsidize wireless carriers from coast to coast under the High Cost element of the USF?

A scientific national opinion poll released on November 14, 2007 and conducted for Cap the Fund (an organization that TSC helped to found) that more than seven in 10 Americans (71 percent) - including 75 percent of Republicans, 69 percent of Democrats and 67 percent of Independents -- support a cap on the "High Cost" portion of the Universal Service Fund (USF) in the wake of recent increases in USF subsidies to wireless telephone companies. Nearly seven in 10 Americans (69 percent) -- including 73 percent of Republicans, 69 percent of Democrats and 65 percent of Independents -- would support an end to "providing USF subsidies to wireless companies where unsubsidized service already is being provided" by

¹ Insert description/membership level.

² http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-08-28A1.pdf, page 5.

wireless competitors. Overall, fewer than one in five Americans (23 percent) would keep USF spending in place the way it stands today.³

Given the runaway nature of USF spending, consumers – particularly older Americans – are understandably concerned about the burden of USF tax subsidies. An April 2006 public opinion survey conducted for TSC found that 70 percent of older Americans think that “the federal taxes and fees now being assessed on your phone bill are too high,” with only about 22 percent saying they are “about right.” A third of all seniors – and 38 percent of those who said they were on a “fixed income” – reported that they already have had to “cut back on long-distance calling in the last two years in order to save money needed for other things, such as prescription drugs, heating bills and other energy charges, or other expenses.” Over half (55 percent) reported no change in their calling patterns and 5 percent reported making more calls.⁴ Given recent surging energy prices and other inflationary pressures, it is reasonable to assume that even more seniors are now scrimping on their long-distance calls.

Consumers have good reason to be concerned about waste of USF tax dollars. Not only are wireless company subsidies growing rapidly, but there is little evidence that low-income and other intended USF beneficiaries actually are better off for them. A June 2007 study by Criterion Economics expert Nicholas Vantzelfde compared the coverage of subsidized wireless carriers with coverage provided by unsubsidized wireless carriers in the same areas. Vantzelfde found:

- “In the approximately 800 study areas where wireless carriers receive USF subsidies, unsubsidized carriers provide substantially more coverage. Unsubsidized carriers cover 97 percent of the population in these areas, while subsidized carriers cover only 70%.
- Of the 148 million people living in areas where wireless carriers receive subsidies, subsidized carriers provide unique coverage to only 2 percent of the population. On the other hand, unsubsidized carriers provide coverage to 44 million people who do not have coverage from the subsidized carriers.
- Wireless carriers receive over \$1,000 in subsidies for each incremental line served, or \$95 per subscriber per month.
- “Subsidies to wireless carriers are highly duplicative: More than half of the population in areas where wireless carriers receive subsidies is covered by two or more subsidized carriers.”⁵

Adding insult to injury for consumers is the long list of ultra-wealthy individuals and publicly traded companies that are gorging themselves on billions of taxpayer dollars that are being served up at the USF feeding trough today.⁶

The Seniors Coalition has been on record since June 2006 in support of reverse auctions to hold down wasteful USF subsidies. In that month, TSC released a study, “‘Universal Service’ Telephone Studies: What Does \$7 Billion Buy?,” by Thomas W. Hazlett, Professor of Law & Economics and Director, Information Economy Project, George Mason University; and Senior Advisor to the Analysis Group.

³ <http://www.capthefund.org/release111407.cfm>. The Seniors Coalition is a co-founder of Cap The Fund.

⁴ <http://www.senior.org/News/Read.aspx?ID=189>.

⁵ <http://www.criterioneconomics.com/docs/Criterion%20USF%20Press%20Release%20061307.pdf>.

⁶ <http://www.capthefund.org/learnabout.cfm>.

On the topic of reverse auctions, Professor Hazlett noted: "... (USF) payments could be reduced were the entire universal service obligation auctioned to the service provider offering to provide basic services for the lowest dollar cost ... One encouraging sign is that many policy makers, including FCC Chairman Kevin Martin, are considering the use of 'reverse auctions' to assign universal service obligations. Here, phone carriers compete to become the 'provider of last resort' in areas where regulators deem local services (without subsidies) insufficient, bidding a price (paid by the government) to supply such services. Firms should be free to adopt any technology or network architecture, promoting innovation, and the effect of rivalry would push subsidy levels down to the actual cost of service, saving taxpayers billions of dollars."⁷

TSC concurs that reverse auctions have the potential to reduce wasteful USF spending by billions of dollars. We would note that reverse auctions to assign universal service obligations have been successfully utilized in other countries, including Chile.⁸

If a test of reverse auctions is deemed necessary, it should be done on an expedited basis. Auctions should be technology neutral. There is no need to have separate auctions for separate technologies. Whoever can deliver service with the least amount of USF support should win, without regard to the technology that is used. Finally, to curb the current double- and triple-subsidy situation in certain markets, the reverse auctions should be carried out on a "winner takes all basis."

Similarly, The Seniors Coalition supports action to curb abuses under the "identical support" rule, under which wireless carriers collect the same amount per line as landline-based competitors. When a wireless carrier that has made little or no investment in infrastructure is allowed to get the same subsidy in this fashion, the result is gold-plated waste of taxpayer dollars. The USF should not be subsidizing duplicated carriers in the same market. Further, it should not be handing out subsidies in such an indiscriminate fashion that wireless carriers can simply jump into a market and walk away with a big subsidy check.

Today, the USF is a program that has lost its bearings. No longer focused on ensuring universal telecommunications access, the High Cost program has been perverted to such an extent that it now is little more than tax subsidy conveyor belt feeding the bottom lines of wireless and rural telephone companies. It is unwary seniors and other consumers who pay the price for this waste and abuse. It is high time for the FCC to take action to curb the USF abuses that are now directly contravening the "universal service" purpose of the Fund.

Sincerely,



Dave Herman
Executive Director

⁷ http://www.senior.org/Documents/USF_Master.6.13.06.pdf.

⁸ Jon M. Peha, Tradable Universal Service Obligations, 23 TELECOMMUNICATIONS POLICY (July 1999), p. 363-74.